

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE
Revised

House Bill 645
Appropriations

(Delegate James)(Chairman, Joint Committee on Pensions)

Budget and Taxation

State Retirement and Pension System - Transfer of Service Credit - Restriction on
Benefits

This pension bill provides that members who transfer pension service: (1) from one pension system within the State Retirement and Pension System (SRPS) of Maryland to another; or (2) from a State or local retirement system to another State or local retirement or pension system and retire based on an ordinary or accidental disability retirement within five years of the transfer are not subject to reductions in benefits that limit the benefits paid for the transferred credit from the member's previous system.

The bill is effective July 1, 2004 and applies to individuals who received a disability allowance on or after June 1, 2002.

Fiscal Summary

State Effect: Based on the retroactive provision of this bill, State pension liabilities would increase \$462,000, resulting in increased annual State pension contributions of \$27,900. Future year costs reflect actuarial assumptions. State pension liabilities would also increase by an indeterminate amount prospectively for additional members who transfer and then receive disability allowances.

Local Effect: To the extent that individuals transfer into a local retirement or pension system and retire on a disability within five years of the transfer, local pension liabilities would increase. Reliable estimates of the magnitude of any particular increase are not possible.

Small Business Effect: None.

Analysis

Current Law: Members are permitted to transfer service credit from one system to another if the member makes a claim for the service credit within one year of transferring. Benefits payable with respect to the transferred service credit may not be greater than the benefits that would have been payable under the previous system if the member retires for any reason within five years of transferring the service credit. Current law makes no distinction between service and disability retirements.

Background: Benefit levels among the various subsystems of SRPS differ significantly. Members of the Employees' Pension System (EPS) may retire with full benefits at age 62 or 30 years of service, regardless of age. There is a 2% mandatory employee contribution. The benefit formula provides 1.2% of average final compensation (AFC) for each year of service prior to June 30, 1998 and 1.4% of AFC for each year of service since July 1, 1998. Members of the Law Enforcement Officers Pension System (LEOPS) may retire with full benefits at age 50 or with 25 years of service, regardless of age. There is a 4% mandatory employee contribution. The benefit formula provides 2% of AFC for each year of service up to a maximum 30 years (or 60% of AFC). LEOPS members are also eligible for a Deferred Retirement Option Program, which allows them to technically "retire" while continuing to work. Members of the Correctional Officers' Retirement System (CORS) may retire with full benefits at age 55 or with 20 years of service. There is a mandatory 5% employee contribution. The benefit formula provides 1.8% of AFC for each year of service (with no limit on service credit).

State Fiscal Effect: The retroactive provision of this bill would affect two members. The actuary estimates that if one transfers from EPS to LEOPS and one transfers from EPS into CORS, State pension liabilities could increase by \$407,000 for LEOPS and \$55,000 for CORS. Amortizing those costs over 25 years would result in fiscal 2006 employer contributions of \$24,600 for LEOPS and \$3,300 for CORS. Out-year costs reflect actuarial assumptions. The prospective number of members who would be affected by this bill, and the systems to and from which they would transfer, cannot be reliably estimated at this time. It is likely that the number of affected individuals is relatively small.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Milliman USA, Maryland State Retirement Agency, Department of Legislative Services

Fiscal Note History: First Reader - February 20, 2004
ncs/mdr Revised - House Third Reader - March 25, 2004

Analysis by: Daniel P. Tompkins

Direct Inquiries to:
(410) 946-5510
(301) 970-5510